

1982
ANNUAL
REPORT



CHIPMAN

MINING & ENERGY CORPORATION LTD.

Corporate Profile

Chipman Mining and Energy Corporation Ltd. is a North American resource oriented company. The Company has been in crude oil production since 1979.

Chipman Mining and Energy Corporation Ltd. is Canadian controlled and has applied for C.O.R. rating to qualify for the maximum allowable Petroleum Incentive Program grants. The Company's shareholders are in majority Canadian, but it has a large number of U.S. and other shareholders.

Chipman Mining and Energy Corporation Ltd. is listed on the Alberta Stock Exchange (Calgary) with the trading symbol CML. An application is pending for listing on the over the counter market by Blue Sky Listing and the NASDAQ.

Chipman Mining and Energy Corporation Ltd. owns leases in Canada and the United States. The U.S. exploration activities are conducted through the wholly owned subsidiary, Cimarron Petroleum Corporation (Utah).

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Financial Highlights

	1982	1981
Revenues	\$774,520	\$462,159
Net Earnings (Loss)	\$ 96,780	\$(154,477)
Per Share (cents)	3	(4)
Cash Flow from Operations	\$212,441	\$(24,377)
Per Share (cents)	5	(1)
Working Capital	\$136,972	\$52,208
Current Ratio	1.9	1.4
Debt to Total Assets (%)	59	63
Return on Equity (%)	22	(33)

Corporate and General Information

Directors:

Jess H. Chua, Ph.D., Calgary
J.R. Percy, B.A., Toronto
Garnet M. Schulhauser, Calgary
C.M. Tirkanits, President, Calgary
N.M. Tirkanits, P. Eng, Chairman of the Board, Calgary, Montreal

Officers:

N.M. Tirkanits, P. Eng, Chairman of the Board
C.M. Tirkanits, President
Garnet M. Schulhauser, Vice President - Law, Secretary of the Company, Partner of
Burnet, Duckworth & Palmer
Jess H. Chua, Ph.D., Vice President - Finance, Chairman of the Financial Management
Area, Faculty of Management, University of Calgary
Ester C. del Rosario, B.S.C., Treasurer, Accountant

Corporate Head Office:

Chipman Mining and Energy Corporation Ltd.
508, 622 - 5th Avenue, S.W.
Calgary, Alberta T2P 0M6
Telex: 03 827886 Telephone: (403) 237-6447, 237-6448, 237-6449
Office Administration: Sheila Smashnuk, Secretary
Graham Irish, Assistant Accountant

Registrar and Transfer Agent:

Crown Trust Company, Calgary, Alberta; Toronto, Ontario; Montreal, Quebec

Bankers:

Toronto Dominion Bank	First Interstate Bank of Utah
2 Calgary Place	ZCMI Centre Office, Suite 237
340 - 5th Avenue, S.W.	ZCMI Centre, Salt Lake City
Calgary, Alberta T2P 2P6	Utah 84111

Auditors:

Campbell Sharp, Chartered Accountants
601, 500 - 4th Avenue, S.W.
Calgary, Alberta T2P 2V6

Engineers and Geologists:

Bar Engineering Ltd., Heavy Oil Engineering, Lloydminster
Farries Engineering (1977) Ltd., Petroleum Consultants, Calgary
Lundberg-Tirkanits and Associates Ltd., Professional Engineers, Calgary, Toronto
Mr. Jon Zeisloff, Consulting Geologist, Holladay, Utah

Legal Counsel:

Burnet, Duckworth & Palmer	Pruitt & Gushee
32nd Floor, 425 - 1st St. S.W.	875 Beneficial Life Tower
Calgary, Alberta T2P 3L8	Salt Lake City, Utah 84111
Telex: 03 825585	Telephone: (801) 531-8446
Telephone: (403) 260-0100	

Stock Exchange Listing:

Alberta Stock Exchange, Calgary, Symbol CML

Subsidiary Company:

Cimarron Petroleum Corporation (Utah)	
Executive Office:	Field Office:
508, 622 - 5th Avenue, S.W.	3597 South 150 E.Ast
Calgary, Alberta T2P 0M6	Bountiful, Utah 84010
Telephone: (403) 237-6447	Telephone: (801) 295-2871

Letter to the Shareholders

It is with great pleasure that we present to you the Annual Report of your Company for the year ended October 31, 1982 on behalf of the Board of Directors.

Within the very difficult environment, your Company's performance improved. The production income increased. The Company's bank loan was reduced. Last year's loss of 4¢ per share has been turned to a gain of 3¢ per share. This has taken place simultaneously with an expansion program in Canada and the United States.

An Unitization Agreement was reached with several land-holders and the Mobil Oil Corporation in Utah. Two exploratory wells were drilled showing hydrocarbons and several other wells are planned.

An application is pending with Saskatchewan Mineral Resources to allow your Company to drill an additional six to eight wells qualifying for NORP price regime on its producing property; this could substantially increase the crude oil production and cash flow.

These accomplishments are the result of your management's hard work and the help of the dedicated office and field staff, to whom we would like to express our appreciation.

Submitted on behalf of the
Board of Directors
Calgary, 1983 01 31

C.M. Tirkanits
President

Petroleum Exploration, Development and Production — Canada

Western Canada

Maidstone, Saskatchewan

Your Company holds a 100% interest in lease number PN-16037, consisting of 320 acres. Of the eight wells drilled in 1979, six qualified for NOP and two for the NORP price regimes.

	<u>Revenue History</u>	<u>Production Income</u>
1979		—
1980		\$487,859.00
1981		\$656,856.00
1982		\$800,135.00

An independent engineering evaluation indicated the following oil in place reserves:

1) McLaren Sand	1,184,000 m ³	(7,445,000 bbls)
2) Waseca Sand	459,506 m ³	(2,890,296 bbls)
	<u>1,643,506 m³</u>	<u>(10,335,296 bbls)</u>

The latest engineering report, dated August, 1982, evaluated the potential of the McLaren Sand as follows:

- current recovery of about 1.24%;
- estimated ultimate primary recovery on 40 acre spacing of 5.6%;
- estimated ultimate primary recovery on 20 acre spacing of 9.8%.

Your management has submitted an application to allow it to drill additional wells qualifying for the NORP price regime on a 20 acre spacing. This would increase the primary recovery of the McLaren Sand to 116,200 m³ (730,000 barrels).

Independent engineering evaluation estimates about \$5,000,000 capital requirement for the tertiary project with a present value profit, before taxes, of \$23,000,000.

Negotiations are in progress to sell the tertiary reserves for a royalty interest; the management of the project would be retained by Chipman Mining and Energy Corporation Ltd.

Petroleum Exploration, Development and Production — U.S.A.

United States

Cimarron Petroleum Corporation (Utah), a wholly owned subsidiary, holds and operates all of the Company's leases within the United States. The exploration and/or drilling is conducted through Cimarron Petroleum Corporation (Utah).

Utah

On July 29, 1982 an Unitization Agreement was approved by the Minerals Management Service (U.S.A.) with Cimarron Petroleum Corporation (Utah) as the unit operator.

The total unit area is 12,617.81 acres. The following are the leases in Grand County, Utah, which are included in this agreement and the acreage and percentage of interest of each.

<u>Lease Serial No.</u>	<u>Acreage</u>	<u>% Interest Less Overriding Royalty</u>	
U-17956	695.80	97%	Mobil Oil Corporation
U-17958	2,240.00	97%	Mobil Oil Corporation
U-20035	1,330.07	94%	Cimarron Petroleum Corporation (Utah)
U-20035-A	1,208.82	94%	Cimarron Petroleum Corporation (Utah)
U-20047-A	682.80	87%	Cimarron Petroleum Corporation (Utah)
U-20047-B Sec. 5	683.68	87%	Cimarron Petroleum Corporation (Utah)
U-20047-B Sec. 6	704.19	94%	Cimarron Petroleum Corporation (Utah)
U-20400	1,992.28	97%	Mobil Oil Corporation
U-20400-A	320.00	94%	Cimarron Petroleum Corporation (Utah)
U-21291	320.00	95%	Michael Gottfredson
U-34254	88.73	100%	Jerry Chambers
U-37728	695.76	97%	Mobil Oil Corporation
U-37729	640.00	97%	Mobil Oil Corporation
U-50693	320.00	100%	Maudell Johnson
Unleased	695.68	100%	State of Utah unleased land
Total Acreage:	<u><u>12,617.81</u></u>		

An overseas financing of \$150,000 U.S. was arranged, through the sale of Overriding Royalties for the initial exploration work. Two wells were drilled and completed in 1982. Both wells drilled indicated hydrocarbon shows and are presently under evaluation.

Petroleum Exploration, Development and Production — U.S.A.

Utah

	<u>Lease Serial No.</u>	<u>Acreage</u>	<u>% Interest</u>
Grand County Lease	U-25965	275.22	94%

Montana

Fergus County Lease	M-24819	2,120.0	97%
Pondera County Lease	M-29740	80.00	89.5%
Valley County Lease	M-53888	200.00	97%

New Mexico

Catron County Lease	NM-51473	1,436.55	100%
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This property was acquired through a simultaneous oil and gas lease draw.

Future Exploration and Prospects

Your management is constantly investigating other prospective areas in Canada, U.S.A. and overseas.

Chipman Mining & Energy Corporation Ltd.

Suite 508 - 622 - 5th Avenue S.W.
Calgary, Alberta, Canada
T2P 0M6



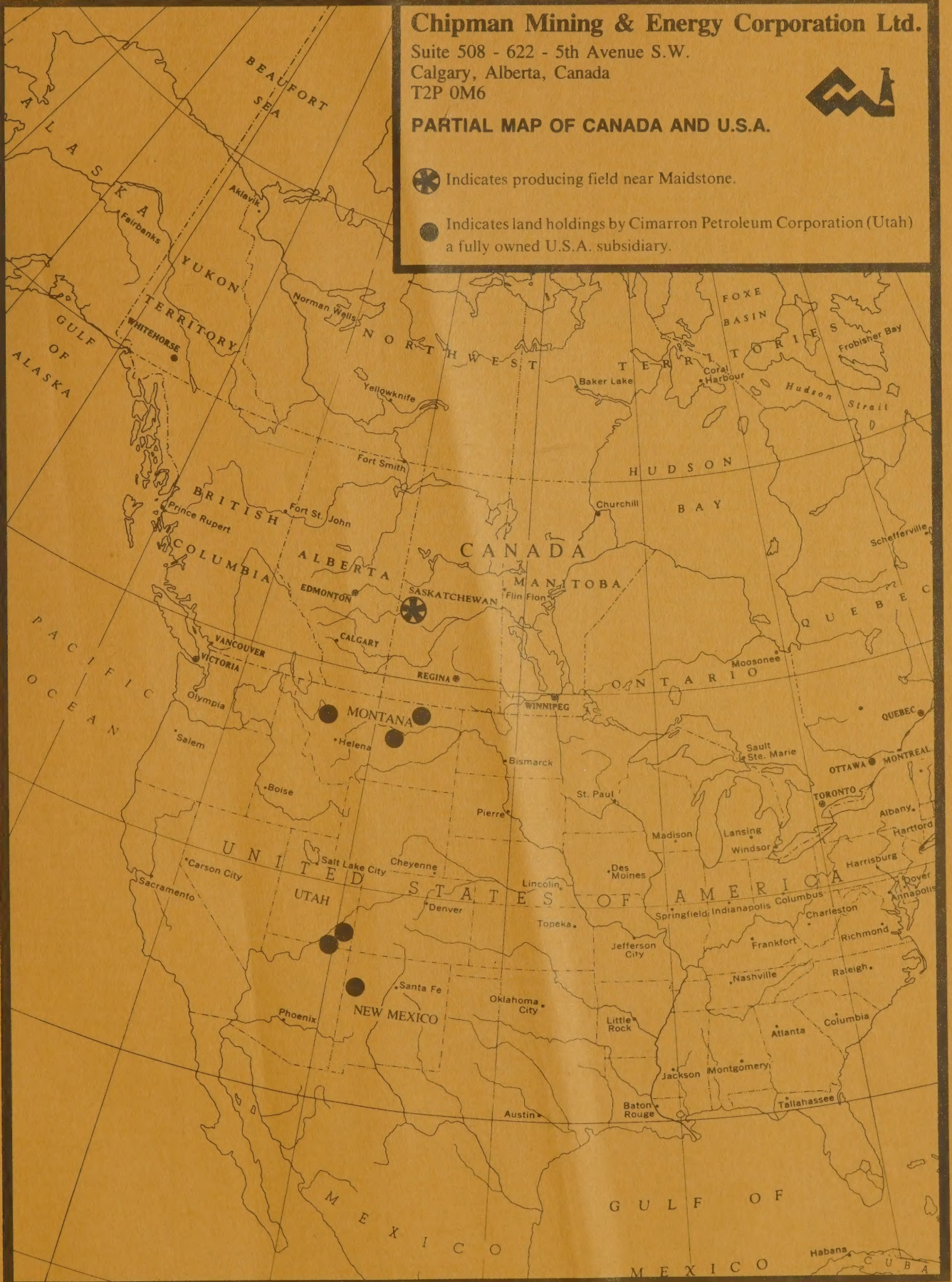
PARTIAL MAP OF CANADA AND U.S.A.



Indicates producing field near Maidstone.



Indicates land holdings by Cimarron Petroleum Corporation (Utah)
a fully owned U.S.A. subsidiary.



Auditor's Report

To the Shareholders of
Chipman Mining and Energy Corporation Ltd.

We have examined the consolidated balance sheet of Chipman Mining and Energy Corporation Ltd. as at October 31, 1982 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta,
December 22, 1982.



Chartered Accountants.

Chipman Mining and Energy Corporation Ltd.

Consolidated Balance Sheet

October 31, 1982

	<u>1982</u>	<u>1981</u>
Assets		
Current		
Cash	73,374	16,960
Accounts receivable (note 2)	167,838	110,559
Inventory	20,700	20,700
Deposits	10,000	10,000
Prepaid expenses	14,095	10,623
	<u>286,007</u>	<u>168,842</u>
Resource Properties and Equipment (note 3)	914,196	883,131
	<u>\$1,200,203</u>	<u>\$1,051,973</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (note 4)	63,285	62,207
Royalties payable	43,880	19,909
Petroleum and gas revenue tax payable	26,893	34,518
Incremental oil revenue tax payable	14,977	—
	<u>149,035</u>	<u>116,634</u>
Long-term Debt (note 5)	562,017	550,968
	<u>711,052</u>	<u>667,602</u>
Shareholder's Equity		
Capital (note 6)	1,944,131	1,944,131
Share Subscription Received (note 1)	8,000	—
Contributed Surplus	17,559	17,559
Deficit	(1,480,539)	(1,577,319)
	<u>489,151</u>	<u>384,371</u>
	<u>\$1,200,203</u>	<u>\$1,051,973</u>

The financial statements have
been approved by the Board

Director



Director



Chipman Mining and Energy Corporation Ltd.

Consolidated Statement of Earnings and Deficit
for the year ended October 31, 1982

	<u>1982</u>	<u>1981</u>
Revenue		
Production income	800,135	656,856
Royalties expenses	(220,466)	(215,234)
	<u>579,669</u>	<u>441,622</u>
Well servicing assistance credits	4,726	18,955
Sale of overriding royalty interest	183,885	—
Other	<u>6,240</u>	<u>1,582</u>
	<u>774,520</u>	<u>462,159</u>
Expenses		
Production	176,002	152,744
General and administrative		
— consulting and professional fees	44,783	66,865
— other	125,109	116,115
Interest — long-term	168,080	116,294
Depreciation and depletion	<u>115,661</u>	<u>130,100</u>
	<u>629,635</u>	<u>582,118</u>
Earnings (Loss) Before Taxes	144,885	(119,959)
Petroleum and gas revenue tax	33,128	34,518
Incremental oil revenue tax (<u>14,977</u>	<u>—</u>
Net Earnings (Loss)	96,780	(154,477)
Deficit, beginning of year	<u>(1,577,319)</u>	<u>(1,422,842)</u>
Deficit, end of year	<u><u>\$(1,480,539)</u></u>	<u><u>\$(1,577,319)</u></u>
Earnings (Loss) Per Share (note 7)		

Chipman Mining and Energy Corporation Ltd.

Consolidated Statement of Changes in Financial Position
for the year ended October 31, 1982

	<u>1982</u>	<u>1981</u>
Working Capital Increased by		
Operations		
Net earnings (loss)	96,780	(154,477)
Items not affecting working capital		
Depreciation	47,041	45,265
Depletion	68,620	84,835
	<u>212,441</u>	<u>(24,377)</u>
Long-term debt (net)	11,049	83,085
Petroleum Incentive Program grant	32,839	—
Share subscription received	8,000	—
	<u>264,329</u>	<u>58,708</u>
Working Capital Decreased by		
Purchase of		
Resource properties	128,685	33,245
Production equipment	50,880	—
Furniture and fixtures	—	2,264
Sundry	—	980
	<u>179,565</u>	<u>36,489</u>
Increase in Working Capital	<u>84,764</u>	<u>22,219</u>
Working Capital, beginning of year	<u>52,208</u>	<u>29,989</u>
Working Capital, end of year	<u><u>\$136,972</u></u>	<u><u>\$52,208</u></u>

Chipman Mining and Energy Corporation Ltd.

Notes to the Consolidated Financial Statements

October 31, 1982

1. Significant Accounting Policies

a) Principle of consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Cimarron Petroleum Corporation, which was acquired during 1982.

The companies are engaged in the exploration and development of resource properties. The acquisition has been accounted for by the purchase method and the results of Cimarron Petroleum Corporation operations have been included in these financial statements from the date of acquisition, December 2, 1981.

The following is a summary of the assets acquired and purchase consideration given:

Assets acquired

net tangible resource properties acquired at an estimated fair market value	<u>\$38,000</u>
--	-----------------

Consideration given

- (a) \$30,000 cash.
- (b) 20,000 shares of capital stock of Chipman Mining and Energy Corporation Ltd. valued at \$8,000 and
- (b) stock options for 50,000 shares of capital stock of Chipman Mining and Energy Corporation Ltd. exercisable at \$1.65 per share and expiring on December 2, 1986.

The 20,000 shares of capital stock of the company has yet to be issued. In addition, the stock option has not been exercised.

b) Translation of foreign currency

Accounts in U.S. dollars have been translated into Canadian funds on the following basis:

- i) current assets, current liabilities and long-term debt at the year end exchange rate;
- ii) non-current assets at the rate of exchange prevailing at the date of the transaction;
- iii) revenue and expenses at the average rate of exchange during the year, except for depreciation and depletion which are on the same basis as the related asset.

All unrealized exchange gains or losses are deferred in the accounts.

c) Inventory

Crude oil inventory is valued at net realizable value as determined under terms of existing purchase agreements.

d) Resource properties and depletion

The company follows the full cost method of accounting, under which all costs relating to the exploration for and development of oil and gas reserves are capitalized, whether productive or non-productive. Depletion is computed on the total of all such costs by the unit of production method based upon the total estimated proven reserves of oil and gas. Saskatchewan production incentive credits are income if sold before they are earned, otherwise they are a reduction in cost of resource properties.

e) Depreciation

Declining balance depreciation is applied to write-off the cost of petroleum and natural gas production equipment and other equipment over their estimated useful lives at the rates of thirty percent and twenty percent respectively.

	<u>1982</u>	<u>1981</u>
2. Accounts Receivable		
Trade	134,568	109,655
Affiliated companies	23,411	—
Shareholders	9,859	904
	<u>\$167,838</u>	<u>\$110,559</u>
3. Resource Properties and Equipment, at cost		
Resource properties including exploration and development expenditures	1,038,504	909,819
Petroleum Incentive Program grant	(32,839)	—
Accumulated depletion	(203,455)	(134,835)
Petroleum and natural gas production equipment	333,598	282,718
Other	6,167	6,167
Accumulated depreciation	(227,779)	(180,738)
	<u>\$914,196</u>	<u>\$883,131</u>
4. Accounts Payable and Accrued Liabilities		
Trade	54,543	55,112
Affiliated companies	8,742	7,095
	<u>\$63,285</u>	<u>\$62,207</u>

5. Long-term Debt

The bank production demand loan originally granted for \$350,000 is subject to a maximum three year term with full payout expected by 1984. The loan is secured by demand promissory notes, a registered assignment of book debts, inventory and proceeds of production, and bears interest at the bank prime lending rate plus .75%. The loan is repayable out of future production proceeds and accordingly is not expected to require the use of existing working capital; accordingly, no portion of the loan is classified as a current liability.

1982

1981

155,000

270,000

Advances from an affiliated company bearing interest at the bank prime lending rate plus 2% with no repayment terms specified.

7,017

280,968

Advances, bearing interest of 11% per annum repayable in principle instalments as follows: 1984 — \$100,000; 1985 — \$150,000; 1986 — \$150,000.

400,000

\$562,017

\$550,968

Principal repayments in the next 4 years are:

1983

Nil

1984

145,000

1985

260,000

1986

150,000

6. Capital

Authorized

5,000,000 common shares without par value

Issued

3,869,160 common shares

\$1,944,131

\$1,944,131

During the year stock options totalling 271,000 common shares were granted to affiliated companies, officers and employees of the company exercisable at an option price of \$.45 per share. These stock options expire as follows:

July 1, 1983

2,000

July 6, 1983

15,000

July 1, 1984

2,000

July 1, 1985

2,000

July 6, 1987

250,000

271,000

There are no other stock options outstanding aside from 50,000 shares of option resulting from the purchase of Cimarron Petroleum Corporation (note 1).

7. Related Party Transactions

In the normal course of business the company engages the services of an affiliated company which is also a shareholder to supply consulting services. Payments under various contracts were \$84,232 (1981 — \$169,000).

The company paid interest of \$109,440 (1981 — \$49,617) to an affiliated company which is also a shareholder.

During the year the company sold its wholly-owned subsidiary Great Winetou Petroleum Ltd. to an officer and shareholder of the company. The company had net assets of approximately \$500 and was sold for \$2,455.

On July 1, 1982 the company entered into a joint venture agreement with Great Winetou Petroleum Ltd. The agreement allows Great Winetou Petroleum Ltd. the right to farm-in on the company's heavy oil lands in Saskatchewan upon payment of one million dollars cash to the company, with a commitment to expend an additional four million dollars to set up a tertiary recovery project. The company would remain as operator of the tertiary project.

8. Earnings (Loss) Per Share

Earnings (loss) per share	.03	(0.04)
Fully diluted earnings per share	.02	N/A

Both earnings (loss) per share and fully diluted earnings per share figures are calculated using the weighted average number of shares outstanding during the period. Fully diluted earnings per share shows the effect on earnings per share which would result if the stock options and the stock due on the purchase of Cimarron Petroleum Corporation had been converted into common shares as of the date of issue. In the fully diluted earnings per share calculation, the assumption is made that the funds derived from exercising the above stock options had been invested to produce an annual return of 12% after income taxes. The amount of income imputed was \$13,950.

9. Income Taxes

The company follows the tax allocation method of accounting for income taxes. As at October 31, 1982 the company had approximately \$440,000 of deductible exploration and development expenses available to be carried forward and applied to future years' taxable income.

10. Segmented Information

Information relating to the company's operations by geographic segment for the year ended October 31, 1982 is summarized as follows:

	1982		
	Canada	United States	Total
Petroleum and natural gas sales	800,135	—	800,135
Operating income	13,455	83,325	96,780
General and administrative expenses	66,030	103,862	169,892
Income before taxes	61,560	83,325	144,885
Identifiable assets	1,025,242	174,961	1,200,203

The company had no United States operations in 1981.

